Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

5 MARCH 2025

Trump 2.0 Trade War Escalates: Sweeping Tariffs, Retaliation, and Market Fallout

Trump's trade war timeline 2.0

Jan 20	Feb 1	Feb 3	Feb 4	Feb 10	Mar 4
The White House orders trade priority studies due by April 1, 2025	Trump announces executive orders and tariffs on Canada, Mexico, and China, **effective February 4**, ending duty-free treatment for low-value packages from these countries. Canada announces retaliation.	Tariffs on Mexico and Canada on hold	Tariffs on China go into effect, end of duty-free packages from China. China retaliates - announces tariffs, export controls, and unreliable entity designations, and threatens new antitrust investigations into Google in response to US tariffs imposed on February 4. Chinese tariffs take effect on February 10.	25% tariff on steel & aluminium	US tariffs go into effect on Canada and Mexico Higher tariffs go into effect on China

Sources: Peterson Institute for International Economics, BMMB Economics

The trade war under Trump 2.0 has entered a new and volatile phase, with sweeping tariff measures officially taking effect yesterday. On March 4, 2025, the White House **ended the 30-day pause** on its February 1 executive order, triggering a **10% tariff on Canadian oil and energy products** and a **25% tariff on all other imports from Canada**. Simultaneously, the administration imposed a **blanket 25% tariff on all imports from Mexico**, further intensifying tensions with two of the US' largest trading partners. Additionally, the White House amended the February 1 executive order by raising tariffs on all **Chinese imports from 10% to 20%**, broadening the scope of the trade war. This latest escalation comes on top of an earlier **25% tariff on global steel and aluminum imports**, with the administration arguing that these measures are necessary to rebuild American manufacturing and reduce reliance on foreign supply chains. The sweeping tariffs have already provoked immediate retaliation from Canada, Mexico, and China, while financial markets remain on edge over the potential economic fallout.

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Retaliation from Trading Partners: Countermeasures Intensify

China's response:

Beijing wasted no time in hitting back, announcing USD100 billion in retaliatory tariffs that will take effect on **15 March 2025**. These measures primarily target US agricultural exports (soybeans, corn, beef), energy (liquefied natural gas), and technology sectors. Additionally, China is:

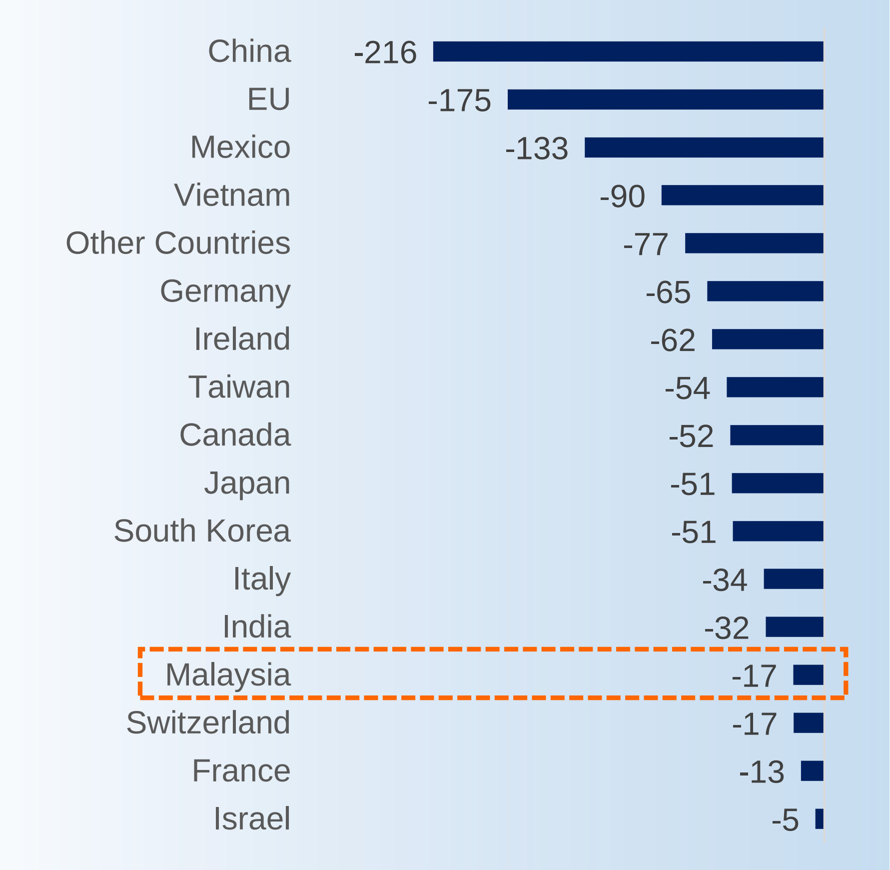
- Restricting exports of critical minerals like tungsten and rare earth elements—essential for the US defense and tech industries;
- Launching an antitrust probe into Google and adding US firms like Illumina and PVH Group to its Unreliable Entity List.

Canada and Mexico's Response:

Both countries have condemned the new US tariffs as "reckless and unjustified protectionism" and are rolling out countermeasures that will take effect on **18 March 2025**:

- Canada is imposing tariffs on US dairy, pork, oil, and industrial machinery, targeting politically sensitive industries.
- Mexico is raising tariffs on US corn, auto parts, and steel, warning that prolonged tensions could severely disrupt regional supply chains.

US Trade balance (goods) in USD billion (as at 3Q2024)



Sources: US Census Bureau, CEIC

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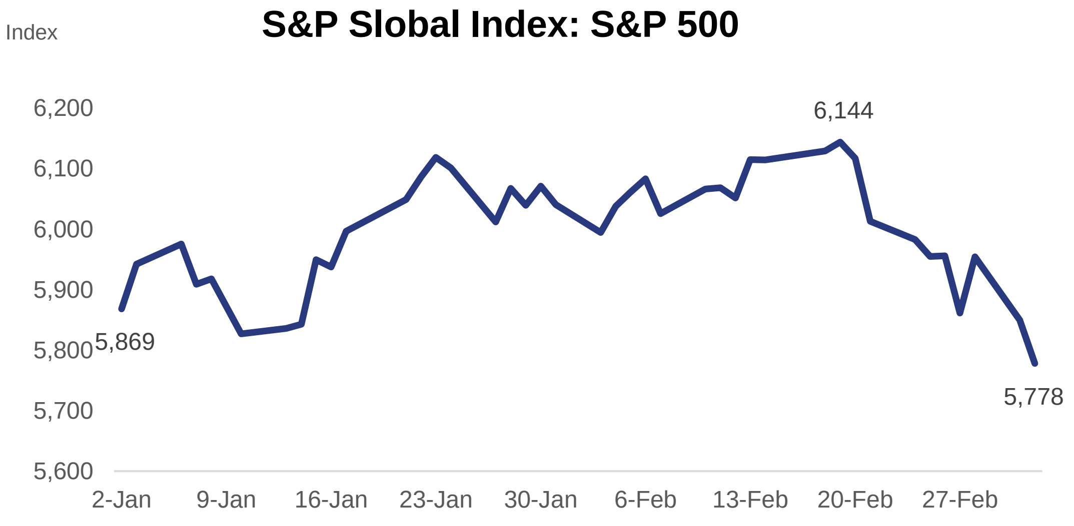
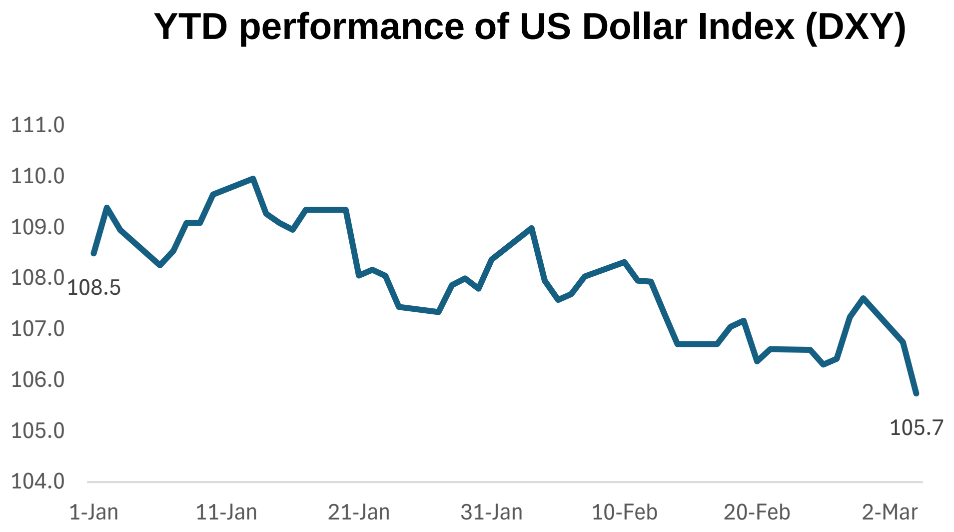
Market reaction: Equities Slide, Yields Drop, Dollar Retreated



Source: CEIC



Source: Marketwatch

The **financial markets have been on edge** in the run-up to the latest tariff escalation, with risk sentiment deteriorating as investors brace for prolonged economic uncertainty. US equities have been in steady decline, with the **S&P 500 down 6% since mid-February**, reflecting concerns over rising costs for manufacturers and potential supply chain disruptions. The **Dow Jones Industrial Average fell 6.3%,** with automakers and industrial giants bearing the brunt of the selloff. **US Treasuries saw renewed demand**, with investors seeking safety amid escalating trade tensions. This flight to safety underscores mounting concerns that the trade war could further slow economic growth and reignite recession fears. Meanwhile, the US dollar index registered 2.6% declined YTD, as investors priced in the likelihood of a more dovish Fed stance, down to 105.7 from 108.5 at the start of the year.

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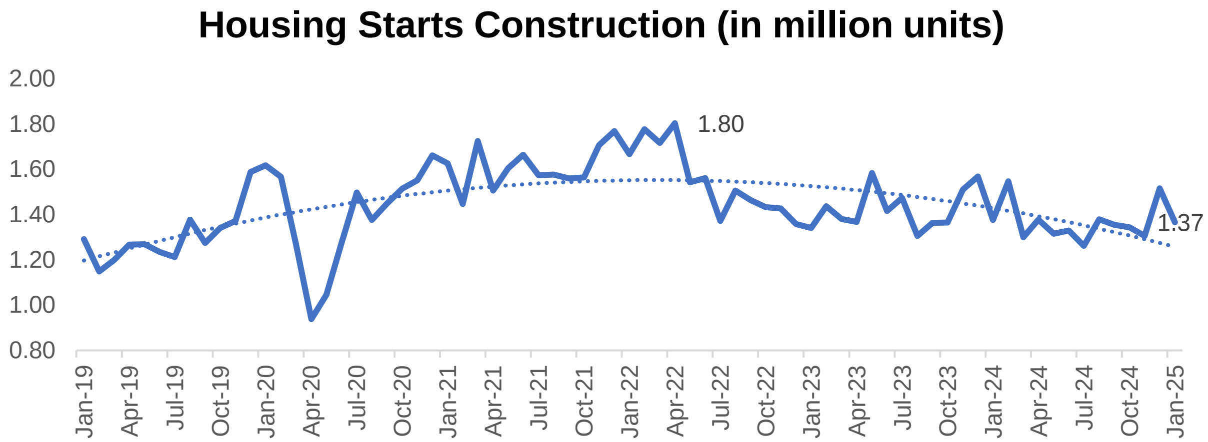
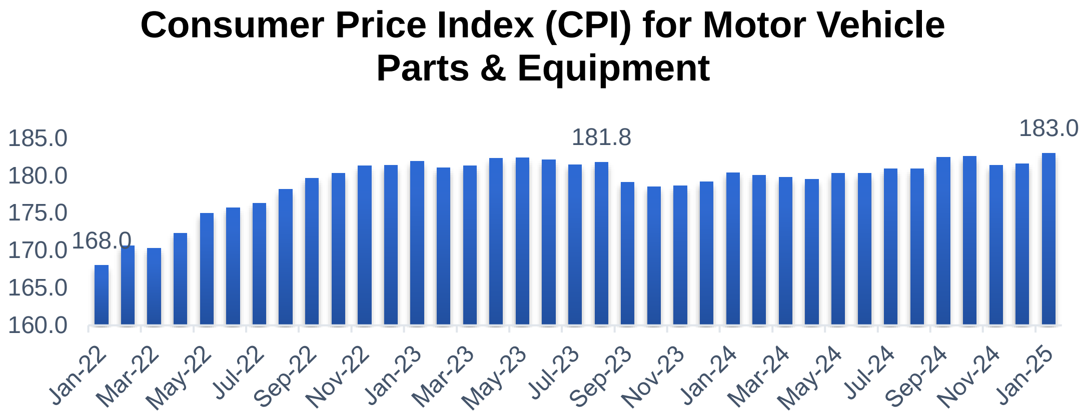
What's Next: Uncertainty Reigns as Higher Import Tariff Could Slow the US Economy





Source: CEIC

As the trade war deepens, the **outlook remains clouded with uncertainty**. The US economy is likely to **experience rising inflation, slower growth, and sector disruptions** as tariffs on imports from Canada, Mexico, and China intensify. Higher import costs, particularly in sectors like **automobiles, construction, and retail**, will **lead to price hikes for consumers**, adding to existing inflationary pressures. The disruption of global supply chains, especially in manufacturing and agriculture, could not only compress business margins but also spur further retaliatory tariffs, which would hurt US exports. For the property sector, rising construction costs are likely to worsen the already critical issue of housing affordability.

So far, the housing market has shown signs of strain, with housing starts declining to 1.37 million units in January 2025, well below the averages of 2021 (1.61 million), 2022 (1.55 million), and 2023 (1.43 million). Meanwhile, the CPI sub-index for Motor Vehicle Parts and Equipment surged to 183 points in January 2025, marking an 8.9% increase from the same period in 2022. In sum, these escalating tariffs **risk slowing economic growth, exerting additional pressure on Federal Reserve's monetary policy**, and injecting greater volatility into financial markets. The uncertainty is palpable, and the ripple effects across industries are already being felt.

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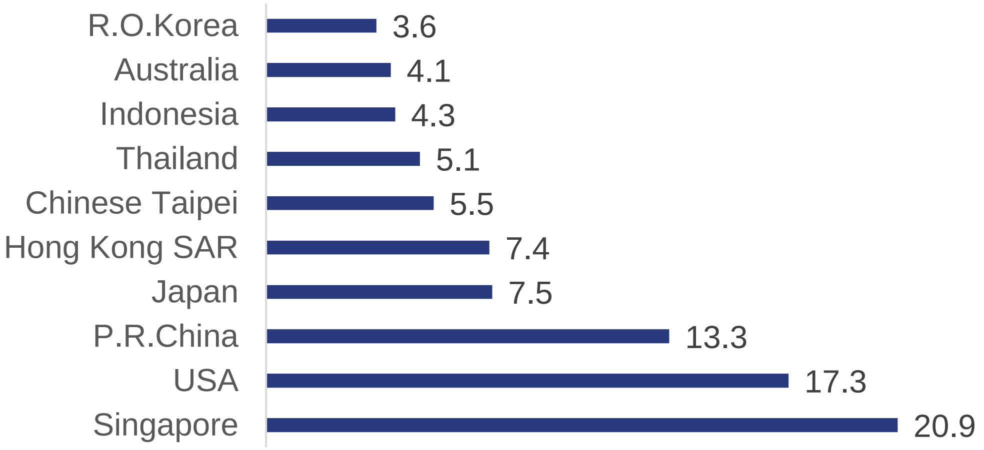
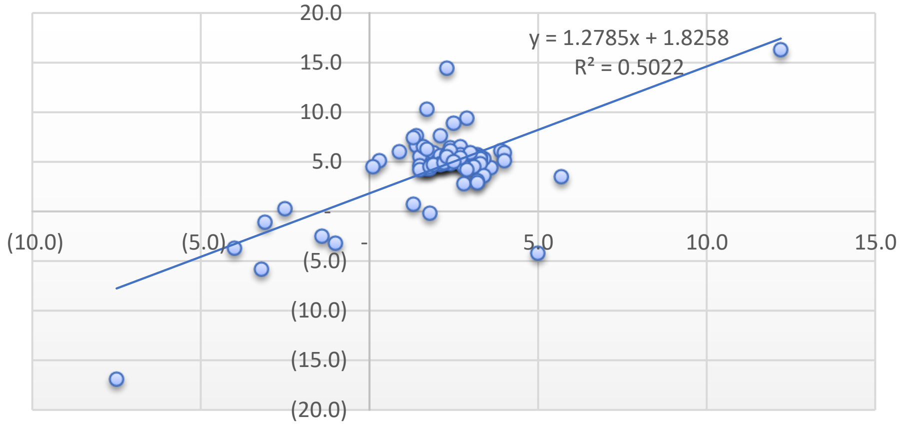
For Now, the Only Certainty Is More Uncertainty

Malaysia's major export destinations, RM billion (Jan 2025)



Sources: MITI Malaysia

Malaysia's vs US GDP growth



Source: CEIC, BMMB Economics

A slowdown in the US economy could have significant repercussions for Malaysia's external demand, ultimately weighing on its GDP growth. As the **US remains Malaysia's second-largest trading partner**, any reduction in US demand for Malaysian exports—particularly in sectors such as E&E, machinery and transport equipment and palm oil—**could hinder Malaysia's economic expansion**. Historically, US and Malaysia's GDP growth have shown a strong positive correlation of 71%, with fluctuations in the US economy often reverberating in Malaysia's own economic performance. This could mean the downside risk to Malaysia's GDP growth has become elevated should the tariff implementation could severely affect the US economy. By extension, the Fed could accelerate its plans to cut its policy rates in order to stabilize the economy. The upshot is ringgit could gain further grounds as the gap between the OPR (3.00%) and Fed Fund Rate (4.50%) would narrow should the Fed opt for mote rate cuts. At the current juncture, the market seems to pencil in 3 rate cuts which would bring the Fed Fund Rate to 3.75%. This could result in lower interest rate differential from the current level of 150 basis points to 75 basis points. As such, we maintain our call for the year end target of USDMYR at RM4.30. As for OPR, the BNM might keep it steady at 3.00% in anticipation for the rollout of RON95 subsidies rationalization which might lead to elevated inflation in the 2H2025.